

## Message Text

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ORIGIN ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 AGR-05 IO-10 DODE-00 PA-01 PRS-01

/100 R

DRAFTED BY ARA/APU:JMSMITH:NR

APPROVED BY ARA:DR. FISHLOW

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R 050014Z SEP 75

FM SECSTATE WASHDC

TO AMEMBASSY BUENOS AIRES

LIMITED OFFICIAL USE STATE 210906

E.O. 11652: N/A

TAGS: EFIN, EGEN, AR

SUBJECT: DISCUSSION WITH ARGENTINE ECONOMIC OFFICIALS

REF: STATE 208264

1. IN THE AFTERNOON OF SEPTEMBER 2 DEPUTY ASSISTANT SECRETARY FISHLOW MET WITH A GROUP OF SIX ARGENTINE ECONOMIC OFFICIALS HEADED BY EDUARDO ZALDUENDO, FIRST VICE PRESIDENT OF THE CENTRAL BANK, AND GUIDO DI TELLA, SECRETARY OF STATE FOR PROGRAMMING AND COORDINATION, MINISTRY OF ECONOMY, TO HEAR FURTHER DETAILS OF THE ARGENTINE ECONOMIC PROGRAM OUTLINED EARLIER IN THE DAY TO ASSISTANT SECRETARY ROGERS BY MINISTER CAFIERO.

2. DI TELLA STRESSED THE TEMPORARY NATURE OF ARGENTINA'S LIMITED OFFICIAL USE  
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ECONOMIC DIFFICULTIES. IN ITS BALANCE OF PAYMENTS ARGENTINA HAD A FAVORABLE CURRENT ACCOUNT BALANCE OF \$750 MILLION IN 1973. FAILURE TO ADJUST THE EXCHANGE RATE TO THE REAL VALUE OF THE PESO LED THE CURRENT

ACCOUNT SURPLUS TO DECLINE TO \$250 MILLION IN 1974 AND RESULTED IN A DEFICIT OF \$937 MILLION IN THE FIRST HALF OF 1975. THE NEW POLICY OF REALISTIC EXCHANGE RATES, EXTENSION OF CREDIT TO PRODUCERS, AND SUPPLY RESPONSE TO

MAINTENANCE OF HIGH REAL PRICES FOR SUCH IMPORTANT EXPORT PRODUCTS AS CORN SHOULD BRING THE CURRENT ACCOUNT INTO EQUILIBRIUM IN THE SECOND HALF OF 1975 AND LEAD TO A SURPLUS OF \$250 MILLION IN 1976.

3. DI TELLA SAID THE LATEST DEVALUATION OF THE PESO IS IMPORTANT, NOT BECAUSE OF ITS MAGNITUDE, BUT BECAUSE IT SIGNIFIES THE ADOPTION BY ARGENTINA OF THE "CRAWLING PEG." THE GOA WILL CONTINUE TO USE MULTIPLE EXCHANGE RATES, AT THREE LEVELS, WHICH DI TELLA RECOGNIZES IS NOT IDEAL, BUT THE GOAL IS FOR ONE OF THE RATES EVENTUALLY TO BECOME IDENTICAL TO THE FREE RATE. THE GOA CAN ANNOUNCE RATES WHICH ARE A MIX OF THE THREE BASIC RATES IN ORDER TO BRING A PARTIAL DEVALUATION FOR SELECTIVE PRODUCTS.

4. ANOTHER IMPORTANT GOAL OF THE NEW ECONOMIC PROGRAM, DI TELLA SAID, IS THE REDUCTION OF THE GOVERNMENT DEFICIT, WHICH CURRENTLY EQUALS 15 PER CENT OF GNP. EXPENDITURES ARE TO BE REDUCED BY SHELIVING SOME QUESTIONABLE OR MARGINAL DEVELOPMENT PROJECTS. INCOME IS TO BE INCREASED BY STEPPED-UP COLLECTION OF EXISTING TAXES WHICH HAVE DECLINED OWING TO LAGS IN COLLECTIONS, AND POSSIBLY BY THE IMPOSITION OF NEW TAXES. THERE WILL BE INDEXATION OF TAXES FOR ENFORCEMENT PURPOSES SO AS TO REMOVE THE INCENTIVE TO DELINQUENCY IN AN INFLATIONARY SITUATION. THESE MEASURES SHOULD HALVE THE DEFICIT IN 1976.

B. MR. FISHLOW ASKED ABOUT INFLATION PROSPECTS. THE ANSWER WAS THAT RATES HAVE BEEN DECELERATING FROM 50 TO 35 TO 20 PER CENT. THERE WAS NO PREDICTION OF WHAT RATES WOULD BE IN THE FUTURE OR WHAT THE MONEY SUPPLY LIMITED OFFICIAL USE  
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WOULD DO - EXCEPT TO NOTE THE INTENDED DECLINE IN THE DEFICIT, AND HENCE CENTRAL BANK BORROWING.

6. MR. FISHLOW COMMENTED THAT THE PROPOSED 45 PERCENT INCREASE IN EXPORTS TOGETHER WITH A REDUCTION IN REAL IMPORTS IMPLIES AN INEVITABLE REDUCTION IN CONSUMPTION. HE WONDERED WHETHER THIS WOULD BE ACCEPTABLE TO THE PUBLIC. THE ARGENTINES REPLIED THAT THEY WERE RELYING LARGELY ON INCREASED AGRICULTURAL PRODUCTION AS THE BASIS FOR THE EXPECTED INCREASE IN IMPORTS. A \$500 MILLION INCREASE IN AGRICULTURAL EXPORTS WOULD BE SUFFICIENT TO FINANCE ARGENTINA'S EXTERNAL DEBT, BUT

WOULD REPRESENT ONLY A 3 PERCENT INCREASE IN AGRICULTURAL PRODUCTION. THIS WOULD NOT NECESSARILY IMPLY MUCH, IF ANY, DECREASE IN CONSUMPTION. THEY ADDED THAT LABOR IS, IN FACT, ACCEPTING A DECREASE IN REAL

WAGES BECAUSE FOR THE PAST TWO OR THREE MONTHS PRICES HAVE BEEN RISING FASTER THAN WAGES AND THIS LAG IS EXPECTED TO CONTINUE FOR THE NEXT 3 OR 4 MONTHS AT LEAST. IN SPITE OF THIS, LABOR IS GIVING THE GOVERNMENT FULL SUPPORT.

7. MR. FISHLOW ASKED WHAT THE GOA WOULD DO IF IT SHOULD NOT PROVE POSSIBLE TO OBTAIN THE EXTERNAL FINANCIAL ASSISTANCE DESIRED. THE ARGENTINES REPLIED THAT THERE WAS NO FURTHER INTERNAL MEASURES THAT COULD BE TAKEN TO CLOSE THE BALANCE OF PAYMENT GAP, BUT THAT THE GAP MUST BE COVERED IN ONE OR ANOTHER - IMPLYING SOME KIND OF DEBT RENEGOTIATION.

8. AT THIS POINT THE ECONOMIC "PLAN" SEEMS MORE A COMMITMENT TO A STRATEGY OF GRADUALISM THAN A WELL ARTICULATED POLICY. CERTAIN FEATURES, LIKE REALISTIC EXCHANGE RATES AND PRICES FOR AGRICULTURAL PRODUCTS, ARE PROMISING. BUT WHAT IS LACKING IS ANY INDICATION OF HOW THE INDISPENSABLE AUSTERITY CUM FULL EMPLOYMENT IS TO BE MANAGED DOMESTICALLY. KISSINGER

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